



DELAINE EASTIN
State Superintendent of Public Instruction

CALIFORNIA
DEPARTMENT
OF
EDUCATION

721 Capitol Mall

P. O. Box 944272

Sacramento, CA

94244-2720

MANAGEMENT BULLETIN 01-03

July 31, 2001

To: County and District Superintendents
Charter School Administrators

Attention: County and District Chief Business Officers

From: Susan Lange, Deputy Superintendent
Finance, Technology, and Administration

Subject: **2001 BUDGET ACT AND RELATED LEGISLATION**

On July 26, 2001, Governor Gray Davis signed the 2001 Budget Act, SB 739 (Chapter 106, Statutes of 2001). Action on the omnibus budget “trailer bill,” SB 347, and a number of other bills related to the budget, is pending. In the interest of providing information on the budget as quickly as possible, this management bulletin focuses on major highlights. We will issue a more comprehensive review of the budget, **Report on the Budget Act of 2001**, at a later date. Copies of this bulletin, as well as future budget-related documents, will be available at <http://www.cde.ca.gov/sfsdiv/> on the California Department of Education’s web site.

2001-02 BUDGET OVERVIEW

The state revenue picture for 2001-02 has worsened since January, based on forecasts of an economic slowdown and a significant decline in the stock market. In January, the state Department of Finance (DOF) projected that General Fund revenue would grow by 6.9% in 2000-01 and grow by 3.3% in 2001-02. In the May revision of the budget, the DOF projected that General Fund revenues would grow by 8.5% in 2000-01 and decline by 4.1% in 2001-02. The net effect of the May changes in projected revenue was to reduce by \$3.4 billion the funding available for the state budget over the two-year period. The budget as enacted decreases year-to-year spending by 1.7% and contains a reserve of \$2.6 billion, or 3.5% of revenues.

Under Proposition 98, the revenue forecast for 2001-02 generates \$41.4 billion in state and local funds available in 2001-02 for ongoing program purposes in K-12 schools, other educational agencies, and community colleges. This is based on “Test 3” under Proposition 98. As part of the Proposition 98 calculation, the Constitution allows the state to provide a lower funding level (Test 3) than otherwise required in years when personal income growth exceeds General Fund revenue growth. The budget package exceeds the minimum funding level, and instead, funds

Proposition 98 closer to the higher (Test 2) level. The budget exceeds the required amount by \$4 billion.

K-12 EDUCATION OVERVIEW

The budget provides \$40.5 billion in state and local funding in 2001-02 for K-12 education under Proposition 98, an increase of \$2.4 billion over the 2000 Budget Act. On a per-ADA (average daily attendance) basis, K-12 Proposition 98 funding increases to \$7,009 in 2001-02 (4.6% above the 2000 Budget Act level of \$6,701).

The budget also provides \$1 billion in one-time funds that are available for Proposition 98 purposes, but are not counted in the Proposition 98 totals for 2001-02. The largest single allocations of these funds are \$270 million for the special education mandate settlement and \$250 million for energy conservation programs.

The budget contains a number of spending items that may result in budget pressure in 2002-03. First, a portion of the one-time funds is allocated for ongoing purposes. Finding ongoing funds to support these programs next year may be difficult unless state revenues increase dramatically. Second, some new programs such as revenue limit equalization and the PERS reduction buyout are likely to create demands for continued and/or increased funding as well. In addition, the budget does not fund the estimated \$223 million one-time cost of the newly approved school bus safety mandate, pending a review of the claiming guidelines by the Joint Legislative Audit Committee.

School Apportionments

The budget provides full funding for enrollment growth and a 3.87% cost-of-living adjustment (COLA) for district and county office revenue limits. Table 1 presents the estimated 2001-02 COLA amounts.

Table 1
District Revenue Limit COLAs

District Type	COLA per Unit of ADA
Elementary	\$167
High School	\$200
Unified	\$174

The budget also provides \$40 million for revenue limit equalization (pending enactment of AB 441), and \$35 million (one-time funds) to “buy out” a portion of the reduction in revenue limits related to PERS funding (pending enactment of SB 6). The cost to fully fund both of these programs is significantly higher than the amounts provided in the 2001-02 budget.

Special Education

The budget fully funds enrollment growth and a 3.87% COLA. In addition, the budget includes a base funding adjustment of \$97.9 million, to be allocated based on pending legislation (SB 347). Consistent with AB 602 (Chapter 854, Statutes of 1997), the budget includes \$6.9 million for equalization of funding rates, and \$5.8 million for districts with higher-than-average proportions of students with high-cost, low-incidence disabilities. The budget also contains \$12 million for both 2000-01 and 2001-02 to cover deficiencies in growth funding for 2000-01.

The budget package also includes funding to settle the lawsuit related to special education mandates. Specifically, the budget includes \$100 million on an ongoing basis to be added to special education entitlements, \$25 million ongoing for the next ten years to be available for general purposes, and \$270 million in one-time funds also available for any purpose. Allocation of these funds is contingent on enactment of SB 982.

Preschool and Child Care

The budget provides \$66.8 million for the full-year cost of the expansion of several programs begun in the current year. These programs include Preschool (\$23.8 million), General Child Care targeted to 0-5 year-olds (\$40 million), and Migrant Child Care (\$3 million). The budget provides \$45 million for a statutory COLA of 3.87 percent. The budget also includes \$5.4 million to help compensate child care and development contractors for increased costs associated with state minimum wage increases. The minimum wage funds will be distributed as an addition to the COLA.

For CalWORKs child care:

- The budget provides \$622 million for alternative payment program services in CalWORKs Stage 2 child care. The budget is restructuring the funding mix by increasing both federal and General Fund reappropriations by \$100.6 million, by increasing the federal Child Care and Development Fund by \$69 million, and by decreasing the TANF transfer for child care by \$132 million. An additional \$153 million for Stage 1 (California Department of Social Services) and/or for Stage 2 (CDE) is held in the CalWORKs reserve account if needed.
- CalWORKs Stage 3 child care was increased by \$63.7 million to \$236.3 million, again from a variety of sources, for families exhausting their 24 months of eligibility for Stage 1 and/or Stage 2. The Governor vetoed \$44 million from proposed funding in the budget for Stage 3, funding families exhausting their eligibility for Stage 1 or Stage 2 only through January 31, 2002. The Governor set aside \$24 million in reappropriated funds contingent upon enactment of legislation to modify child policies and eligibility criteria.

Finally, the budget allocates one-time savings of up to \$15 million to the Child Care Facilities Revolving Fund to meet the overall demand for new child care facilities by providing for the purchase and installation of portable facilities, and for renovation and improvement of existing facilities to meet licensing requirements.

Other Categorical Programs

The budget provides increases for growth and a 3.87% COLA. The budget also continues to allow funding shifts (“20% out” and “25% in”) between programs formerly budgeted in the mega-item. It should be noted that the list of programs continues to refer to the Economic Impact Aid and desegregation programs although the budget package proposes to eliminate these programs and replace them with a new targeted instructional improvement block grant (pending enactment of SB 347).

OTHER MAJOR BUDGET ACTIONS

In addition to the increases cited above, the budget includes the following increases and other actions:

Accountability and Testing

- \$135.4 million for the third year of the Immediate Interventions/Underperforming Schools program.
- \$3 million (one-time funds) for workbooks for the High School Exit Examination.

Education Technology and Career Technical Education

- \$10 million (one-time funds) for startup grants for high-tech high schools (pending enactment of AB 620).
- \$10 million (one-time funds) for equipment for Regional Occupational Centers and Programs.
- \$5.5 million (one-time funds) for career technical education (pending enactment of AB 1018).
- \$5 million (one-time funds) for an information technology career academy (pending enactment of AB 717).

Energy

- \$250 million (one-time funds) for energy assistance grants.

Low-Performing Schools

- \$1.2 billion for a new targeted instructional improvement block grant, funded by the proposed elimination of the Economic Impact Aid and desegregation programs (pending enactment of SB 347).
- \$200 million to improve low-performing schools, to be allocated by future legislation.

Professional Development

- \$80 million for mathematics and reading professional development (pending enactment of AB 466).

- \$15 million for principal training programs (pending enactment of AB 75).

Other Actions

- \$90.6 million (one-time funds) for prior-year mandate costs.
- \$75.3 million (one-time funds) for ongoing mandate costs of newly approved mandates.
- \$29.7 million for before- and after-school programs (pending enactment of AB 6).
- \$15 million (one-time funds) to continue the Nell Soto parent-teacher involvement program.
- \$10 million to assist charter schools with facilities leasing costs (pending enactment of SB 740).
- \$10 million (one-time funds) for the existing school safety program.
- \$4.5 million (one-time funds) for county office of education oversight activities under AB 1200, to be allocated by the Fiscal Crisis and Management Assistance Team.
- \$3.5 million (one-time funds) to continue the teen pregnancy prevention program.
- \$3 million in the Department of Finance budget to continue ADA audits by the State Controller's Office.

DETAILED TABLES AND CHARTS

Table 2 shows pending legislation needed to implement the budget. Tables 3 and 4, and Charts 1 and 2, show the uses of the new Proposition 98 funding available in 2001-02.

Table 2
Pending Legislation Needed to Implement the Budget

SB 347	Omnibus budget trailer bill, targeted instructional improvement block grant
AB 6	Before- and after school programs
AB 75	Principal training program
AB 441	Revenue limit equalization
AB 466	Mathematics and reading professional development
AB 620	High-tech high schools
AB 717	Information technology career academy
AB 1018	Career/technical education
SB 6	PERS reduction
SB 740	Charter school facilities leasing costs
SB 982	Special education mandate settlement

Table 3
Uses of New Ongoing Proposition 98 Funds
(dollars in millions)

COLA	\$ 1,406.3
Enrollment growth	564.5
Targeted instructional improvement block grant	1,179.0
Proposed elimination of existing programs	-1,179.0
Low-performing schools program	200.0
Public School Accountability Act	135.4
Special education mandate settlement	125.0
Special education baseline funding adjustment	97.9
Revenue limit equalization	40.0
Before- and after-school programs	29.7
Special education equalization and low incidence	12.7
Charter school facilities lease costs	10.0
Revised projections of current-year program spending	-171.8
Switch of ongoing programs to one-time funding	-77.8
Other adjustments	66.5
Total	\$ 2,438.4

Table 4
Uses of One-Time Proposition 98 Funds
(dollars in millions)

Reappropriated Funds	
Mandates one-time costs	\$ 90.6
Mathematics and reading professional development program	80.0
Switch of ongoing programs to one-time funding	77.8
Mandates ongoing costs	75.3
Partial buy-out of PERS reduction	35.0
Education technology and career technical education	30.5
CalWORKS Stage 3 set-aside	24.0
FCMAT and CSIS	23.3
Principal training	15.0
Parent-teacher involvement	15.0
Special education deficiency	12.0
School safety	10.0
Teenage pregnancy prevention	3.5
High school exit examination workbooks	3.0
Other	5.1
Subtotal	\$ 500.1
Prior-year Funds	
Special education mandate	\$ 270.0
Energy programs	250.0
Subtotal	\$ 520.0
Total	\$ 1,020.1

Questions regarding this bulletin should be directed to the Fiscal Policy Office of the School Fiscal Services Division at (916) 323-8068.

NOTICE:

The guidance in this bulletin is not binding on local education agencies or other entities. Except for the statutes, regulations, and court decisions that are referenced herein, this bulletin is exemplary, and compliance with it is not mandatory. (See Education Code Section 33308.5.)

Chart 1--\$2.4 Billion in New Ongoing Funding

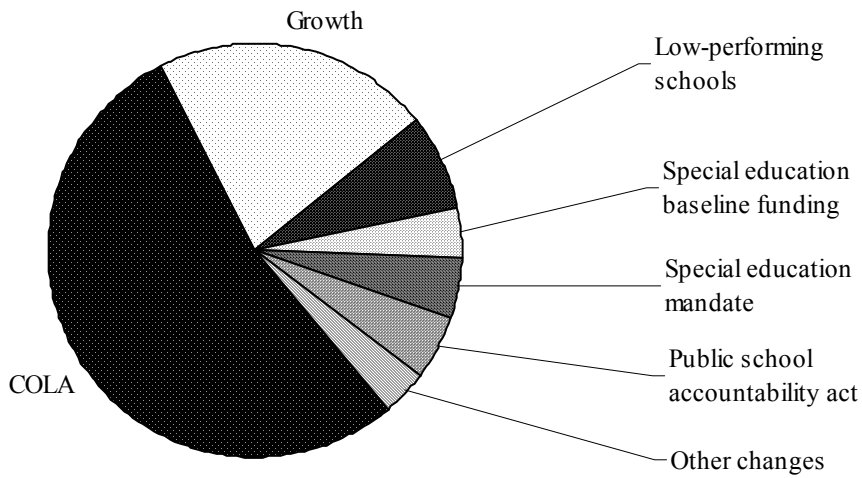


Chart 2--\$1 Billion in One-time Funding

